

November 17, 2003

SACO RIVER TELEGRAPH AND  
TELEPHONE COMPANY,  
Implementation of 2002 Amendments to  
Chapter 204

ORDER APPROVING  
INCREASES TO LOCAL RATES  
FOR BSCA EXPANSIONS AND  
BSCA CALCULATIONS  
(SUBJECT TO TRACKING)

WELCH, Chairman; DIAMOND and REISHUS Commissioners

---

## **I. SUMMARY**

In this Order, we approve the proposal filed by Saco River Telegraph And Telephone Company (Saco River) to increase its rates for local service in conjunction with implementation of expansions to its basic service calling areas (BSCAs). These changes take effect on December 15, 2003.

## **II. BACKGROUND**

On November 4, 2003, Saco River filed a proposal (including changes to its rate schedules and terms and conditions) to increase local rates to offset the expected revenue effects from expansions to the Company's basic service calling areas. Over the next several months, the Company must also reduce its intrastate access rates. Pursuant to amended 35-A M.R.S.A. § 7101-B, the absolute deadline is May 31, 2005 for all LECs to reduce intrastate access rates to the interstate rates in effect for that company on January 1, 2003. As part of that process, the Company may need to increase its local rates to offset the access revenue losses.<sup>1</sup>

The BSCA expansions are required by the November 2002 amendments to Chapter 204 and will become effective on December 15, 2003. All LECs will experience access revenue losses because calls to the contiguous exchanges that are being added to the BSCAs that previously were long distance toll calls will become local. Saco River, in addition, will lose toll revenue for calls to contiguous exchanges because it provides retail toll services. Thus, for Saco, all the access and toll revenue associated with those minutes will be lost. The local rate increases proposed by the Company are designed to offset those losses on a revenue-neutral basis. For the reasons described below, it is difficult to calculate precisely the rate changes needed to achieve revenue neutrality.

---

<sup>1</sup> It may be necessary to conduct a revenue requirement case to determine whether it is necessary to offset all of the Company's access revenue losses.

### III. DISCUSSION

In its October 27, 2003 filings, Saco River provided calculations of the BSCA revenue losses for toll and access and estimates of revenue gains from local rate changes. Saco River revised the toll revenue loss calculations in its November 4, 2003 filing. The BSCA-related revenue changes include retail toll and access revenue losses that will occur because calls to the areas that are being added to the Company's BSCAs previously incurred long distance toll charges (and generated retail toll and access revenues for the Company), but are now local calls. Revenue for local service also will change because of the rate increases, the mix of subscribership to the Premium and Economy options (Saco presently has no Economy option for any of its three exchanges), and the addition of a rate of 5 cents a minute for Economy customers who call outside the flat-rate calling areas of the Economy option but within the BSCA. The Company also included estimates of small amounts of BSCA-related billing software, facility and administrative costs. As discussed in greater detail below, it is difficult to calculate precisely the rate changes needed to achieve revenue neutrality.

Chapter 204, § 5(A) states that a LEC that implements new or modified BSCAs may propose rates that will cover its additional costs and net revenue losses that are attributable to those BSCA changes. Section 5(C) requires LECs to "track" revenue effects for a period of at least 12 months. If the LEC's net revenue loss is greater than predicted (i.e., greater than the prediction upon which the rates approved pursuant to Section 5(A) were based), the LEC may request recovery of the shortfall and propose rates that will collect the correct amount of revenue loss. If the LEC's net revenue loss is less than predicted (and included in rates approved pursuant to Section 5(A)), it must return the excess to customers and must propose future rates that will collect the correct amount to offset the revenue loss.

Saco River provides both retail toll services directly to its own customers and access services to other interexchange carriers who provide retail toll services to Saco River customers. It is not necessary to engage in a tracking exercise for the lost access revenues and the billing and collection (B&C) revenues associated with the lost access minutes. (Indeed, it is impossible to "track" something that no longer exists.) Once these amounts are calculated, they do not change for ratemaking purposes. The number of minutes and messages (and, therefore, access and B&C revenue) that Saco River will lose as a result of the BSCA expansions during the test period is known now. There is only one set of access rates applicable to the traffic to each of the contiguous exchanges that are being added to BSCAs.

It is substantially more difficult, however, to calculate in advance the amount of retail toll revenue that Saco River will lose as a result of losing the contiguous exchange portion of its toll traffic. Saco is able to calculate an effective average rate, i.e., its average revenue per minute (ARPM), for *all* of its retail toll traffic. However, because of the large number of rates and rate plans presently available, it is very difficult to calculate an effective average rate per minute for the subset of traffic to the contiguous exchanges. Saco has one present rate plan that applies exclusively to contiguous exchanges. (This plan will be eliminated after December 15, 2003.) It has another that applies to calls within 30 miles of the home exchange. (This plan will not be eliminated.) Both of these plans have per-minute rates substantially lower than the ARPM used by Saco in its original filing. Other plans (e.g., Pine Tree) and non-plan rates have rates that are higher. It is likely that a greater portion of the traffic to the contiguous exchanges is under the rates provided under the short-haul plans described above than other traffic so that the effective average rate to contiguous exchanges

is lower than the overall ARPM. The short-haul plans also have minimum charges that include a number of minutes. It is possible that some subscribers to the 30-mile option will no longer use the full amount of minutes included in the minimum charge, but will continue to subscribe and continue to pay the full amount of the minimum. Others may stop subscribing to the plan.

Saco, however, simply assumed a reduction in revenues from minimum and up-front charges equal to the percentage loss of its usage-sensitive billing units (e.g., minutes). It would be possible to track Saco's toll losses, although many other causes can also affect retail toll revenues. Instead of tracking of toll revenue losses, however, the Company and the Commission Staff have agreed that Saco instead will use a lower APRM than that included in its original filing. We find this result acceptable and, to the extent necessary, grant a waiver (under Chapter 204, § 7) from the tracking requirement of Section 5(C)(1), which requires tracking of "revenue effects for the first 12 months... ."

The Company has also provided calculations of new local revenues that will offset the various revenue loss components described above. New local revenues include revenues available from the increases to local rates for both the Premium and Economy options and from the new rate of 5 cents per minute for calls by Economy option customers to exchanges within the expanded BSCA but outside the flat-rate calling area of the Economy option (replacing the 50 cents per-call rate). It is necessary to track these amounts. These revenues cannot be fully predicted because the realized mix of customers subscribing to the Premium and Economy options may differ from predicted levels. Predictions are difficult to make because, ultimately, only customers can determine which of the calling options has greater value to them, and the calling areas available under each option will have changed. It is also difficult to predict revenues that the Company will receive from the new 5 cents per minute rate. The new rate may be more attractive to some customers and less attractive to others than the former rate of 50 cents per call and the change might even influence customer choice for the two calling options.

We direct the Company to track the replacement local revenues for 12 months and report the results to the Commission on or before March 15, 2005. Because notice of the BSCA changes will be relatively close to the December 15, 2003 implementation date, and many customers may not respond immediately to the calling options contained in the notice, we believe it makes sense for the 12 months of tracking to begin on February 1, 2004. The results shall be compared to the projections used in the November 4, 2003 filings. The Company may experience other changes in sales that may need to be taken into account in any possible revisions following the BSCA tracking period. Therefore, Saco River, on or before March 15, 2005, shall file billing units for all their services, including numbers of access lines and access and retail toll minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period.<sup>2</sup>

Chapter 204, § 5(C) does not expressly require "tracking" of expenses and new investment, or the recovery by the utility or ratepayers of the difference between the estimates embodied in rates and actual costs, notwithstanding the fact the Section 5(A)

---

<sup>2</sup> A large change in the number of lines will affect revenues, but that revenue change will not be a result of changes in revenues from customers attributable to the BSCA changes. Line data will allow the Commission to calculate a revenue effect per line and thereby filter out effects due to line losses or gains.

allows a LEC to propose rates in advance of implementation that will cover those costs. The November 4 filing provided few details in support of its estimates of those costs, and we have not subjected them to close examination. We therefore find that it is reasonable, as a condition of approving the rates pursuant to Section 5(A) of Chapter 204, that the Company keep records of the actual BSCA-related implementation expenses and investment, and that it provide that information to the Commission when such expenses and investment are completed, but no later than March 15, 2005. Tracking should be for a period that covers all expenses related to BSCA and any changes in investment attributable to the BSCA expansions, provided they are made no later than January 31, 2005. Results shall be presented in absolute and annualized forms.

With that information, we may consider whether to order a change in rates to reflect the differences between present estimates and actual costs. We do not decide at this time whether we would order reconciliation for the differences during the tracking period. proposed a 5-year amortization for expenses. We find that proposal is reasonable. If there is a need to change rates as a result of the tracking, we will determine the appropriate treatment of incremental investment at that time.

## V. RATE CHANGES

The table below sets forth the current local rates, the rate changes and rates approved by this Order.

Saco River Telephone Company  
Bar Mills, West Buxton, Waterboro  
Exchanges

	Current Rate	Post-BSCA Rate	Rate Difference <sup>3</sup>
<b>PREMIUM SERVICE</b>			
Residence one-party	4.66	11.32	6.66
Business one-party	8.16	21.20	13.04
<b>ECONOMY SERVICE</b>			
Residence one-party	N/A	9.82	5.16
Business one-party	N/A	17.20	9.04

Accordingly, we

1. APPROVE, pursuant to Chapter 204, § 5(A), the local exchange service rate increases proposed by Saco River Telegraph and Telephone Company in this docket;
2. APPROVE the initial calculations by Saco River Telegraph and Telephone Company of expected revenue losses and gains and cost changes as a result of BSCA

---

<sup>3</sup> Until the BSCA expansions approved in this Order, Saco River has had only a Premium option. Thus, the rate differences shown in the third column for the Economy option are the differences between the existing Premium rates and the new Economy rates.

expansions, subject to the maintenance by the Company of tracking accounts and the reporting of the tracking results, as described herein;

3. ORDER Saco River Telegraph and Telephone Company to maintain a tracking account from February 1, 2004 until January 31, 2005 for net revenue changes (from changes in local rates and billing units) resulting from additions to basic service calling areas (BSCAs) that will become effective on December 15, 2003; for that purpose the Company shall hold constant in the tracking account the calculations in its filing of November 4, 2003 for retail toll loss and access revenue loss, and shall track the effects of the local revenue increases approved herein;

4. ORDER Saco River Telegraph and Telephone Company, on or before March 15, 2005, to report to the Commission the results of the tracking account described in paragraph 3 and changes in the number of lines; to provide a proposal for reimbursement of customers for any over-funding consistent with the requirements of Chapter 204, § 5(C) and this Order; and to propose a rate adjustment for future rates if the rates approved herein result in over-collection;

5. ORDER Saco River Telegraph and Telephone Company to maintain a tracking account from the commencement of the incurrence of expenses until January 31, 2005 for changes in its revenue requirement (expenses and investment) resulting from of the implementation of the BSCA changes that will take place on December 15, 2003, and to report the results of that tracking on or before March 15, 2005; and,

6. ORDER Saco River Telegraph and Telephone Company, on or before March 15, 2005, to file billing units for all its services, including numbers of access lines and access and retail toll minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period.

Dated at Augusta, Maine, this 14<sup>th</sup> day of November, 2003.

BY ORDER OF THE COMMISSION

---

Dennis L. Keschl  
Administrative Director

COMMISSIONERS VOTING FOR: Welch  
Diamond  
Reishus

## NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.